

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL FIVE)

Docket No. RM2022-11

**REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL FIVE**
(September 27, 2022)

On September 20, 2022, initial comments in this docket were filed by the Public Representative. The Postal Service hereby offers its reply comments to the Public Representative.¹ While agreeing that Proposal Five should be approved, the Public Representative also recommends that certain additional actions be taken. PR Comments at 12. As explained below, however, the Public Representative's additional recommendations are inadvisable, and no additional actions are warranted.

Cost Proportion Percentages

The Public Representative agrees with the Postal Service's proposed method of updating the Intra-P&DC and Intra-District cost proportions on an annual basis using TCSS data, but also advises letting all CDS costs accrue to GL Account Nos 53601 and 53605 only. *Id.* at 6-7. The Postal Service disagrees with this suggestion for two reasons.

First, the Public Representative's concern regarding the proportion of CDS costs accruing outside of these two accounts is unwarranted. As cited by the Public Representative, over 99 percent of the CDS costs accrued in the two accounts as

¹ A separate motion has been submitted by the Postal Service today seeking leave to file these reply comments.

reported in the FY 2021 TCSS dataset. *Id.* at 7. Demonstrating that the FY 2021 circumstances were by no means atypical, in the FY 2019 and FY 2020 TCSS datasets, the percentages were 99.23 percent and 99.16 percent, respectively.

Second, in supporting this recommendation, the Public Representative appears to misinterpret a statement from the Proposal. The Postal Service states that “[c]hanges in either the individual variabilities for the transportation/route types or their relative proportions of the account category’s costs can change the overall account category variability.”² The “relative proportions” referred to in this statement represent the cost proportions for the transportation/route types (box, van, city, and tractor trailer) within the two accounts, not the proportion of CDS costs accrued in the two accounts versus other GL accounts. The cost-to-capacity variabilities for the two accounts are weighted variabilities, where individual variabilities for the transportation/route types are weighted by their respective cost proportions. Thus, changes in either the individual variabilities or the weights will change the overall variability for the account. Changes in the proportion of overall CDS costs accruing in the two accounts, however, do not necessitate a change in the account category variabilities.

Distribution Keys

The Public Representative agrees that the rural cost distribution key (CS10, component 260) should be used to attribute relevant CDS costs to products. *Id.* at 9. The Public Representative, however, also recommends that the Postal Service perform an expanded analysis of CDS and rural route volumes to ensure that the rural route factors are the more credible distribution key. *Id.* at 10. In order to support this

² Petition, Proposal Five at 3; see *also* CDS Report at 4.

recommendation, the Public Representative notes that there are roughly 8,000 CDS routes totaling \$500 million in accrued costs. *Id.* at 11.

In Table 5 of its report, the OIG compared CDS and rural routes at the shape level (letters, flats, and parcels) and not the product level. *Id.* at 12. This limited comparison was made because the CDS data cannot be disaggregated at the product level. Specifically, the Postal Service does not collect CDS route data by product. Thus, the robust expanded analysis suggested by the Public Representative would likely require an extensive field data collection effort that would be time-consuming and expensive, yet would offer little in the way of tangible utility. Moreover, the relevant cost amount for distribution keys is the attributable costs, not the accrued costs as suggested by the PR Comments. In FY 2021, attributable CDS costs totaled less than \$140 M.

Proposal Five would simply apply an improved proxy, rural carrier distribution factors, to replace the current proxy, Intra-SCF distribution factors, as the basis to link attributable CDS costs to products. The Postal Service believes the present analysis amply demonstrates that its proposed distribution key represents a marked improvement in attributing CDS costs to products. Further analysis would be costly, and yet it is virtually inconceivable that such efforts would reverse this conclusion and instead suggest that the current proxy should be maintained. Since choosing one proxy or the other is the only objective of the exercise, no potential benefit from an expanded analysis can realistically be discerned.

Conclusion

For the reasons stated above, no further actions are necessary, and Proposal Five should be approved.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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